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Approved by:

Ann Murphy

U.S. Embassy

Prepared by:

Sandro Perini

Report Highlights: Total wheat imports in 2001/02 are expected to rise to 7.6 MMT, due to reduced domestic crops of bread and durum wheat. U.S. imports, expected to rise another 37% above 2000/01, are expected to peak at 1.18 MMT and could continue in 2002/03 despite an anticipated domestic crop recovery. A decline in corn area is expected as farmers shift to bread wheat. Key policy issues under the Agenda 2000 mid term review are possible cuts to durum wheat aids and rice intervention price.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SITUATION AND OUTLOOK

PRODUCTION

The major factor influencing growers' planting decisions for grains to be harvested in 2002 will be by the final implementation of Agenda 2000. As a matter of fact, starting with 2002/03 the consequent unification of the aids per hectare for both oilseeds and grains has made oilseed cultivation much less appealing to the Italian farmers, likely causing a dramatic decline of both soybean and sunflowerseed planted area.

In the recent past corn and soybean plantings -which both traditionally take place mainly in the Po valley- were directly connected, as the growers have been shifting from one to the other cultivation in view of the relative income prospects and price expectations. This year, on the contrary, a substantial shift from soybeans to bread wheat is reported in the major producing regions of northern Italy. The long term downward trend of bread wheat area (which in 2001 had reached the record low level of only 626,000 hectares) seems therefore to be interrupted this year. Furthermore, while in the fall of 2000 excess rainfall (and even floods in the north-west) delayed and in some cases prevented the regular winter wheat planting operations, weather conditions last fall have been more favorable. As a result, bread wheat area for the 2002 crop is estimated to have expanded by almost 100,000 hectares (+15 percent). Domestic production, therefore, is expected this year to recover somewhat, but still remain well below total domestic needs, covering no more than 35 to 40 percent of the total.

Acreage for barley is also expected to recover, in line with the trend reported for bread wheat, but still remaining a marginal crop in Italy. Total area is estimated some 5 percent larger than in 2001, and final crop is forecast to rise accordingly.

After reaching a record high level in 2001, then virtually matched in 2001, corn planted area should decline slightly this year. The implementation of the new regionalization plan of the aids per hectare from the Ministry of Agriculture has, indeed, made corn relatively less competitive than winter grains. The new plan has evened out the aids per hectare in most of Italy for all grains, while the aid up to last year was throughout Italy higher for corn than for the other grains. Domestic growers' prices, on the other hand, have remained relatively depressed during the last months, following three consecutive years of large crops (over 10 MMT). The combination of the above factors, as a result, have pushed the growers to marginally shift to bread wheat. Domestic production, however, is expected to remain on the high side, covering almost entirely Italy's domestic needs.

A switch similar to what occurred in the north (from soybeans to bread wheat and, at a lesser extent, barley) is expected to take place in central Italy from sunflowerseeds to durum wheat. The prospect of lower incomes from sunflowerseeds, due to the mentioned further cut of the aids per hectare, pushed many farmers of those regions to expand durum area, which is estimated to have risen by over 5 percent for the whole of Italy. Plantings were carried out between late October, 2001 and early January, 2002. Continued drought during most of the winter, accompanied by unusually cold temperatures slowed down plant growth. However, it could catch up to normal by next spring, if weather is more favorable. Domestic production could this year rise to 4.2 MMT, or 20 percent larger than the poor 2001 crop, affected by adverse weather.

Total area planted to rice is expected this year to remain stable, or possibly increase slightly. However, area planted to Indica rice varieties should further increase over the 50,421 hectares planted in 2001, which represented about 23 percent of total area, while plantings to Japonica rice are expected to decline slightly. The relatively improved domestic market situation was reflected in no deliveries to intervention stocks in 2001/02. The likely sale of about 60,000 tons of paddy rice from the intervention stocks of Ente Risi (the state Rice Market Intervention Agency) in the near future will reduce them. The current amount of unsold intervention stocks is about 277,000 tons of paddy rice.

CONSUMPTION

Domestic consumption of the major food grain products remains fairly stable. The only exception is pasta, the consumption of which, after a continued increase up to 1.62 MMT in 1997, had slightly declined in both 1998 and 1999. In 2000, however, industry sources report a slight recovery (over 2 percent more than in the previous year), which might have been repeated in 2001, for which final estimates are not yet available. Feed use of wheat rose remarkably in 2000/01 (a consequence of the BSE crisis and the MBM ban in feeding), and is expected to remain at about 1.5 MMT in both 2001/02 and 2002/03.

Most of the domestic durum wheat supply is used to produce pasta. Pasta production, after two years of stagnation (1998-99) rose significantly in 2000, reaching the record high level of slightly over 3 MMT. This trend reflected both the recovered domestic consumption and, especially, a rise in exports. Preliminary estimates for 2001 indicate slight production growth.

The use of NGFI's in Italy, always marginal, has continued to decline. Imports of corn gluten feed, mainly coming from the U.S., dropped in CY 2000 to 125,000 tons (-29 percent from 1999), and 32,000 tons in January-October 2001. Imports of distilling dregs, which totaled 34,000 tons in 2000 (-17 percent from 1999), were only 11,000 tons in January-October 2001.

TRADE

Total imports of soft wheat are expected to grow to 5.25 MMT in 2001/02, in line with the reduced domestic supply, but could drop to about 4.7 MMT in 2002/03, due to the relative recovery of the domestic crop. During 2000/01, about 83 percent of Italy's imports came from other EU countries with France as a leading supplier, followed by Germany, the U.K. and Austria. The share of the imports from the EU, however, is anticipated to drop remarkably in current 2001/02, consequent mainly to the reduction in both France and the U.K. of the local crops, which are also reported to be of lower than normal average quality. Imports from non-EU countries, therefore, are forecast to rise significantly, favored also by the EU removal of the 10 Euros/MT additional levy for grain imports from the Black Sea countries (as well as the Baltic and Mediterranean countries). Italian imports from those countries, in particular Russia and Ukraine, could reach in the current MY up to 1.3 MMT, of which 0.8 MMT are for milling use and 0.5 MMT are for feed use. Imports from the U.S., on the other hand, are expected to grow to about 550,000 tons, as, in addition to the "traditional" purchases of Dark Northern Spring from North Dakota, for the first time in the recent past, shipments to Italy of Soft Red Winter are also reported. As a matter of fact, last summer some 50,000 to 70,000 tons of SRW were bought by Italian millers, thanks to the unusually low EU import duty for "low quality" soft wheat applied in that period, joined to favorable market conditions (competitive U.S. prices compared to the domestic EU prices prevailing in that period). The DNS wheat is used mainly to produce traditional holiday cakes, as well as other typical, top quality bakery products. DNS quality is reported this year to be of very good quality, thus further favoring Italian imports, which are mainly focused on quality standards rather than on other factors. Based on such considerations, U.S. bread wheat exports to Italy, despite the expected overall decline, are not anticipated to decrease significantly in the following 2002/03 season.

Italian exports of bread wheat flour, after reaching a record high level of 962,000 tons in 1997/98, continue to decline. In 2000/01 they totaled 532,000 tons, but are expected to be less than 500,000 tons in current 2001/02, in line with reduced exports to key Middle Eastern countries (such as Yemen), where the local milling industry has dramatically expanded.

The sharp domestic durum wheat crop decrease is favoring a significant rise of Italian imports, which in 2001/02 are expected to reach 2.35 MMT, over 50 percent more than in past MY. Most of the import increase is reported to occur from non-EU countries, including Australia and Canada, but especially the United States. Durum imports from the U.S. had reached 370,000 tons in 2000/01, partly represented by "desert" durum (about 100/120,000 tons) and partly coming from the U.S. northern plains (mainly North Dakota). The "desert" durum is grown in southern California and Arizona under cultivation contracts with some leading Italian pasta makers (such as Barilla, De Cecco, and others) and is used to produce top quality pasta. This year, the strongly reduced domestic supply has favored a dramatic increase of U.S. durum exports to Italy, even of medium quality wheat, thanks also to relatively low U.S. prices. Throughout 2001/02 all of Italian imports of U.S. durum wheat are expected to reach the record high level of 630,000 tons, of which about 120,000 tons are of desert durum and the remainder are from North Dakota. According to trade sources, the Italian importers this year are buying almost all the U.S. durum they can find available on the market, even relatively low-gluten durum, although the same sources report a fairly good quality in terms of protein content.

After a couple of years of relative stability, Italian pasta exports started to grow again, reaching in 2000/01 1,414,000 tons, or 11 percent more than in the previous year. Shipments to the EU continued to increase and reached 827,000 tons in 2000/01. Exports to the U.S., on the contrary, remained virtually unchanged at 151,000 tons, after Barilla (the leading Italian pasta maker) established its new plant in Iowa, thus displacing almost all of their exports to the United States.

Italian rice exports in 2000/01 declined by 8 percent from the previous year, as a combined result of a virtually stable shipments to the EU, a slight decline in commercial sales to non-EU countries, and a significant decrease in food aids. Food aid represented only 17 percent of total shipments out of the EU, compared to 22 percent in 1999/2000 and 42 percent in 1998/99. During current 2001/02 food aid shipments are anticipated to recover, thus increasing the total export figure. The recovery is expected in spite of persistent market difficulties, especially within the EU, due to strong competition from non-EU origins.

POLICY

Discussions on the so called mid-term review of Agenda 2000 for grains and other arable crops are still taking place and are not expected to be finalized soon. The main cause for concern for the Italian agricultural sector, in view of budget constraints, is the possible reduction of the supplementary aid per hectare for durum wheat. Apparently, the EU Commission considers such aid (344 Euros per hectare) to be too high, and will probably propose to cut it by at least 100 Euros. A recent study completed by the Commission highlighted the problem of excessively low yields obtained in some of the durum areas, especially in southern Italy. In these areas, some farmers can plant durum on their land, get the aid on their entire acreage, and then harvest only in the most productive parts of their farm. The Italian Ministry of Agriculture is reacting to this approach of the Commission, claiming that if any significant change to current Common Agricultural Policy (CAP) has to take place, changes should affect the whole grain sector, and not only durum wheat.

Apart from issues on durum, the most important grain sector farm policy issue currently under

discussion is rice sector reform under the CAP. After long discussions among the different Italian farmers' organizations and the rice miller association, in recent weeks a new proposal has been elaborated by the chairman of the House Ag Committee, which seems to unify the various positions. Such proposal establishes four major conditions: 1) farmers' incomes must not be reduced; 2) the maximum guaranteed area has to remain unchanged (for Italy it is currently fixed at 239,259 hectares); 3) a conservation role is to be recognized; and 4) EU regulations for the rice sector should remain autonomous from the other arable crops.

If the above conditions are satisfied, the Italian rice industry can accept a reduction of the intervention price from 25 to 40 percent, to be offset by an increase in the aids per hectare, in order to keep the farmers' incomes unchanged. According to industry sources, this proposal will be discussed in the first half of 2002 at the EU level, to be possibly approved by the Council in the fall, and implemented in 2003/04.

MARKETING

Export opportunities for both bread and durum wheat remain good, although in the short term a reduction from the record high levels reached in 2001/02 can be expected, in line with the domestic crop recovery. Quality, in any case, continues to be a determining factor for the Italian millers and pasta makers, although, as shown in the current year, market possibilities can rise also for medium quality wheats, under certain conditions.

Strong competition from China and Argentina (for beans) and from Canada (for lentils), are on the contrary affecting U.S. shipments to Italy of dry pulses. U.S marketing efforts should continue to emphasize the higher quality of the U.S. pulses to consumers.

PSD TABLES

WHEAT

PSD Table						
Country	Italy					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	2330	2322	2306	2289	0	2470
Beginning Stocks	300	750	350	750	400	750
Production	7317	7282	6350	6308	0	7500
TOTAL Mkt. Yr. Imports	6722	6699	7750	7600	0	6400
Jul-Jun Imports	6722	6699	7750	7600	0	6400
Jul-Jun Import U.S.	0	859	0	1180	0	900
TOTAL SUPPLY	14339	14731	14450	14658	400	14650
TOTAL Mkt. Yr. Exports	2927	3046	2650	2980	0	3000
Jul-Jun Exports	2927	3046	2650	2980	0	3000
Feed Dom. Consumption	900	1550	1200	1500	0	1500
TOTAL Dom. Consumption	11062	10935	11400	10928	0	10900
Ending Stocks	350	750	400	750	0	750
TOTAL DISTRIBUTION	14339	14731	14450	14658	0	14650

DURUM

PSD Table						
Country	Italy					
Commodity	Wheat, Durum				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	0	1663	0	1663	0	1750
Beginning Stocks	0	400	0	300	0	300
Production	0	4165	0	3500	0	4200
TOTAL Mkt. Yr. Imports	0	1551	0	2350	0	1700
Jul-Jun Imports	0	1551	0	2350	0	1700
Jul-Jun Import U.S.	0	370	0	630	0	400
TOTAL SUPPLY	0	6116	0	6150	0	6200
TOTAL Mkt. Yr. Exports	0	2269	0	2300	0	2350
Jul-Jun Exports	0	2269	0	2300	0	2350
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	0	3547	0	3550	0	3550
Ending Stocks	0	300	0	300	0	300
TOTAL DISTRIBUTION	0	6116	0	6150	0	6200

BARLEY

PSD Table						
Country	Italy					
Commodity	Barley				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	344	344	341	332	0	350
Beginning Stocks	30	100	29	100	29	100
Production	1262	1262	1190	1120	0	1225
TOTAL Mkt. Yr. Imports	550	694	550	700	0	700
Oct-Sep Imports	700	676	550	700	0	700
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	1842	2056	1769	1920	29	2025
TOTAL Mkt. Yr. Exports	1	3	0	0	0	0
Oct-Sep Exports	4	3	0	0	0	0
Feed Dom. Consumption	1412	1500	1290	1370	0	1500
TOTAL Dom. Consumption	1812	1953	1740	1820	0	1925
Ending Stocks	29	100	29	100	0	100
TOTAL DISTRIBUTION	1842	2056	1769	1920	0	2025

CORN

PSD Table						
Country	Italy					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	1064	1064	1113	1098	0	1060
Beginning Stocks	974	800	853	800	503	800
Production	10137	10137	10000	10367	0	10100
TOTAL Mkt. Yr. Imports	600	527	500	400	0	500
Oct-Sep Imports	600	459	500	400	0	500
Oct-Sep Import U.S.	0	2	0	2	0	2
TOTAL SUPPLY	11711	11464	11353	11567	503	11400
TOTAL Mkt. Yr. Exports	50	186	50	200	0	200
Oct-Sep Exports	50	157	50	200	0	200
Feed Dom. Consumption	9672	9400	9600	9500	0	9400
TOTAL Dom. Consumption	10808	10478	10800	10567	0	10400
Ending Stocks	853	800	503	800	0	800
TOTAL DISTRIBUTION	11711	11464	11353	11567	0	11400

BEANS

PSD Table						
Country	Italy					
Commodity	Beans				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		7/2000		7/2001		7/2002
Area Harvested	0	6	0	6	0	6
Beginning Stocks	0	5	0	5	0	5
Production	0	6	0	5	0	6
TOTAL Mkt. Yr. Imports	0	91	0	95	0	96
Jul-Jun Imports	0	91	0	95	0	96
Jul-Jun Import U.S.	0	18	0	20	0	20
TOTAL SUPPLY	0	102	0	105	0	107
TOTAL Mkt. Yr. Exports	0	10	0	12	0	13
Jul-Jun Exports	0	10	0	12	0	13
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	0	87	0	88	0	89
Ending Stocks	0	5	0	5	0	5
TOTAL DISTRIBUTION	0	102	0	105	0	107

LENTILS

PSD Table						
Country	Italy					
Commodity	Lentils				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		7/2000		7/2001		7/2002
Area Harvested	0	1	0	1	0	1
Beginning Stocks	0	2	0	2	0	2
Production	0	1	0	1	0	1
TOTAL Mkt. Yr. Imports	0	26	0	27	0	27
Jul-Jun Imports	0	26	0	27	0	27
Jul-Jun Import U.S.	0	3	0	3	0	3
TOTAL SUPPLY	0	29	0	30	0	30
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	0	27	0	28	0	28
Ending Stocks	0	2	0	2	0	2
TOTAL DISTRIBUTION	0	29	0	30	0	30

RICE

PSD Table						
Country	Italy					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
Area Harvested	220	220	218	218	0	220
Beginning Stocks	238	231	139	210	52	152
Milled Production	728	734	730	737	0	865
Rough Production	1179	1240	1182	1273	0	1400
MILLING RATE (.9999)	6176	0	6176	0	0	0
TOTAL Imports	78	73	83	70	0	70
Jan-Dec Imports	80	72	85	75	0	70
Jan-Dec Import U.S.	0	21	0	5	0	5
TOTAL SUPPLY	1044	1038	952	1017	52	1087
TOTAL Exports	630	564	600	600	0	620
Jan-Dec Exports	630	610	625	560	0	600
TOTAL Dom. Consumption	275	264	300	265	0	265
Ending Stocks	139	210	52	152	0	202
TOTAL DISTRIBUTION	1044	1038	952	1017	0	1087